

TESTIMONY OF JULIE MASCHHOFF
VICE PRESIDENT, THE MASCHHOFFS, INC.
BEFORE THE
U.S. HOUSE COMMITTEE ON AGRICULTURE
LIVESTOCK, DAIRY, AND POULTRY SUB-COMMITTEE
WASHINGTON, DC
May 4, 2011

Our History and Mission

Our ancestors arrived in the Carlyle, Illinois area and began farming over 150 years ago. Five generations later, The Maschhoffs is one of the largest family-owned pork production networks in North America. Our Mission Statement is: “Our focus every day is to raise pork in an efficient, humane and environmentally responsible manner.” We strive to instill this mission into every one of our employees and production partners on a daily basis.

The Maschhoffs are industry leaders in adopting the latest production technologies, building modern animal facilities, and carrying out research in a specially-designed research facility. Our family is committed to providing for the welfare of our employees and animals, and we believe that pork production today exemplifies sustainable agriculture on a large scale. We employ management strategies and make significant capital investments to reduce odor, protect water resources, and recycle manure to enrich the land and supply needed soil nutrients for crop production.

Since 1979, when Dave and Ken Maschhoff entered into a pork production partnership, the Maschhoffs have continuously adopted new production technologies, expanded the company’s reach by building feed mills and adopting contract production, and grown the business from its base in southern Illinois to operations in nine states. Today, The Maschhoffs family business manages 192,000 sows, producing approximately four million market hogs annually. We have more than 950 employees and have created a production network with 320 Production Partners, family farmers who have built modern production facilities and manage the wean-to-finish phase of the pig production cycle.

Our business philosophy centers around: investing in human resources; maintaining a strong work ethic and pride in ownership; making information-based decisions; embracing and developing new

technology; and emphasizing communication among employees/partners, suppliers and customers, and the pork-consuming public.

Our Business Model

The Maschhoffs, like many other pork producers in the U.S., is a model of a partially-integrated company. We own reproduction facilities (sow farms) and the sows in the production system, and we utilize both company-owned and Production Partner-owned (contract) facilities for the wean-to-finish stage of production. Baby pigs around 21 days of age are weaned and then placed in the wean-to-finish barn to be raised up to market weights of around 280 pounds. The Maschhoffs do not own pork processing facilities, so we contract with several major pork packing plants to supply market hogs. We also utilize the spot hog market to sell a portion of our pigs.

Production Partners are family farmers who have entered into production contracts with The Maschhoffs to build wean-to-finish barns, manage those facilities and care for the pigs during that phase of production. The Maschhoffs maintain ownership of the pigs throughout the life cycle, and also supply the feed and veterinary care for the pigs, thereby removing the two main sources of market/price risk (hog market and feed) for the farmers. We typically enter into 10-12 year negotiated contracts with our Production Partners, a period of time long enough for the farm family to get the production facility paid for. The Production Partner is responsible for day-to-day care of the pigs, maintenance of the buildings, utilities and insurance, and management of the valuable manure resource. Typically, the manure is used on the Production Partner's land as a source of soil nutrients for corn production.

This model has worked extremely well in the Upper Midwest for hog production and is greatly supported by the financing community. It is very common for a family's son or daughter who wants to return to the family farm to participate in contract pork production as a way to get started in a career in agriculture. Given today's high land prices and start-up capital costs, being a Production Partner with The Maschhoffs has been a highly viable way for beginning/young farmers to get started and to build equity. In fact, demand for production contracts today far exceeds supply in the Midwest.

Feed Production and Environmental Stewardship

Feed for pigs consists mainly of corn (the energy source) and soybean meal (the protein source), along with vitamins and minerals. In recent years with the rapid growth of the ethanol industry and the resulting competition for corn, we have also adapted the ethanol by-product distillers grains into pig

diets. As such, The Maschhoffs is a major buyer of corn, soybean meal and other feedstuffs in the areas where we operate. Over the years we have constructed two large feed mills and have entered into numerous feed toll milling arrangements with local elevators and cooperatives. It takes about 650 lbs. of feed to grow a weaned pig from 15 lbs. to a market hog weighing 280 lbs. Of that feed, at least 60 percent is corn with the balance being a combination of soybean meal and distillers grains. This year we are going to need 35 million bushels of corn, 165 thousand of tons of soybean meal, and 293 thousand tons of distillers grains to produce enough feed for our production system.

Distillers grains from the ethanol industry represents both a challenge and an opportunity for us in the way we feed pigs. With corn becoming increasingly expensive, we are constantly searching for ways to re-formulate our least-cost feed rations using any and all feedstuffs available. We do utilize a wide array of food industry by-products as a substitute for corn when the pricing makes sense. And, we feed distillers grains as an energy and protein source, substituting partially for both corn and soybean meal, again when the pricing makes sense. Currently we utilize distillers at an inclusion rate of up to 30 percent in wean-to-finish diets, a rate that changes with different feed rations. The biggest constraints to utilizing distillers grains are: 1) the variability in quality from plant-to-plant and even within a plant from hour-to-hour; and 2) pigs being monogastric (one-stomach) animals, they deposit fat in a such a way that the fatty acids included in distillers grains are directly deposited in the pig; when too much distillers are fed, the pork belly becomes soft due to the type of fat laid down, and the carcass risks rejection from pork processors and their customers. Contrary to what many in the ethanol industry claim, distillers grains is far from an ideal feed for the pork industry – we feed what we can when it makes sense, but there are definite limitations to its use.

Producing feed and raising pigs is one of the oldest, most successful and sustainable ways to add value to the corn and soybean commodities produced in the Midwest. In addition, the manure produced in pork production is entirely recycled into the soil to increase its fertility and to provide much-needed nutrients (nitrogen, phosphorous, potassium and micro-nutrients) for crop production. At The Maschhoffs, we have invested significant resources in personnel, machinery, training and technology to manage the manure resource. In fact, we have more than 30 full-time equivalent employees dedicated to environmental management throughout our production system.

To reduce nutrient excretion by the pig, thereby reducing emissions and odor, we tailor the pig's diet to its nutritional needs at a particular stage of growth, a process called phase feeding. We also use

feed additives such as the enzyme *phytase* to increase the absorption of feed phosphorous by the pig, reducing the amount of phosphorous excreted in the manure by 20 to 30 percent.

Food Safety

Food safety is always at the forefront of our thinking at The Maschhoffs. We work closely with our pork processing customers to ensure that food safety at the consumer level is maintained. Food safety at The Maschhoffs begins at the farm level by focusing on maintaining pig health and welfare. Our entire production system is actively involved in the National Pork Board's "Pork Quality Assurance" (PQA-Plus) program, and we work with our trucking partners via the "Transport Quality Assurance" (TQA) program to ensure pigs are handled safely and humanely. We strive to protect consumers by following the strictest feed and medicine traceability protocols to ensure that the pork they eat is safe and nutritious.

Community Outreach

Through our Community Partnership Program, The Maschhoffs makes matching contributions to qualified charities and events in which our employees and Production Partners are involved. Local 4-H clubs, FFA clubs, rural fire departments, churches and schools are just some of the beneficiaries of The Maschhoffs' support.

Government Regulation and Our Business

As a substantial family business involved in agricultural production, The Maschhoffs face a large number of regulations at the local, state and federal government levels. I will comment on just a few of the more significant issues here. Let me start on the positive with several highly-beneficial government activities that directly impact our pork production business. I mentioned how important food safety is for us at The Maschhoffs – we have great confidence in the USDA's meat inspection system under the Food Safety Inspection Service (FSIS). In fact, FSIS has been highly successful in driving down cases of meat-born pathogens, as reported by the Centers for Disease Control (CDC). We supported the passage last year of the FDA Food Safety Modernization Act (FSMA), as amended, because we feel the FDA needs more tools to help the agency maintain consumer confidence in the nation's food supply. Anything that jeopardizes consumer confidence in food is very bad for our business. We are hopeful that the many rules under development now by the FDA under the FSMA will truly help it maintain food safety and not lead to increased bureaucratic interference in our feed and pork production systems. Finally, we at The

Maschhoffs have long supported mandatory price reporting for pork, including wholesale cuts. The regulations under development at USDA's Agricultural Marketing Service will hopefully bring even more transparency into the pork meat price discovery system and benefit producers such as ourselves who rely on many USDA price reports to make day-to-day decisions in marketing our animals.

As you are aware, the US pork industry has been wildly successful over the past 15 years in increasing pork exports – we are now the leading pork exporting country in the world, and year in and year out export around 20 percent of the pork we produce. I would urge you to ratify as soon as possible the three pending Free Trade Agreements (South Korea, Colombia, and Panama) which would be highly beneficial to all of us in the pork industry.

On the other side of the ledger, I need to mention several sets of regulations in place or under development that are of great concern to us. Let me start with the GIPSA rule currently under review at USDA. As presented for comment, the proposed rule would be a great threat to our pork production business model in two main areas: 1) we feel the proposed rule would force us to do away with our system of contracting with production partners, thereby taking away an important economic tool for hundreds of family farm pork producers in the Midwest; and 2) we would be hamstrung in our supply contract negotiations with our pork processor partners. In general terms, the GIPSA rule would, as a colleague recently put it, “put us in a race to mediocrity in pork production”. We hope the USDA will keep in mind that our production contracts and supply contracts are negotiated, business transactions that contain proprietary business information. We have no problem with the several livestock contracting provisions that the Congress called for in the 2008 Farm Bill, but the proposed GIPSA rule goes far beyond Congressional intent and would do great damage to the livestock industry in the U.S.

The EPA, as some on the Agriculture Committee have previously noted, seems to be an agency with a whole lot of solutions to problems that just don't exist in agriculture. We are most concerned about CAFO regulations, the December 2010 “Clean Water Protection Guidance” that would greatly expand the set of waters subject to jurisdiction under the Clean Water Act, EPA's misguided attempts to regulate dust in agriculture, and repeated attempts to regulate air emissions from livestock facilities. It is disheartening to those of us who have committed to producing livestock in a sustainable fashion for 150 years to hear government officials talk about manure (or milk) as toxic waste. Perhaps it is our own fault for not educating those same officials as to how we operate, for example, that we store manure below ground in steel-reinforced concrete tanks that do not discharge; that we know the nutrient value and field placement of every single gallon of the millions of gallons of nutrients that we field-apply each

year; or that manure is so valuable to corn producers that it is bought and sold as a commodity and that demand far outstrips supply in the areas where we operate.

A rule under development at USDA/FSIS that deals with non-ambulatory animals at processing facilities gives us great concern. As a result of a petitioned rulemaking process, two anti-livestock interest groups, the HSUS and Farm Sanctuary, are asking FSIS to condemn all non-ambulatory animals, including pigs that are temporarily unable to walk due to stress and/or heat exhaustion. Such a rule could cause the pork processing industry to condemn over 60 million pounds of perfectly good meat in a year. We have addressed this issue many times in the past in the Congress, and to date our “downer pig” champion Congressman Boswell has always had the good sense to explain to his colleagues the difference in physiology between pigs and cattle, and that given a little time to rest, almost all non-ambulatory pigs will get up and walk and be perfectly fine for the food supply.

I mentioned earlier in my remarks regarding food safety that we supported the FDA Food Safety Modernization Act. In general, we feel the FDA does a fair job in another of its duties, the review and approval of animal drugs. In fact, FDA’s animal drug approval process requires that the product not only be efficacious and safe for animals, but also that they do not harm human health or the environment. The FDA’s June 2010 draft guidance #209 (The Judicious Use of Medically Important Antimicrobial Drugs in Food-Producing Animals), however, concerns us greatly. The draft guidance, by doing away with the use of animal health protection products for animal health maintenance or production, would take away an important tool pork producers have in using FDA-approved products to keep pigs healthy. We fear a situation such as what has occurred in Danish pork production where similar restrictions resulted in more sick pigs and ultimately an increase in the amount of antibiotics needed to treat those pigs. In addition, keeping pigs healthy results in better feed efficiency of the pigs (less feed needed to produce more pork) which is especially important during this time of high corn prices.

Finally, let me comment the impact of ethanol policy on our pork production business. I already pointed out the challenges pork producers face with using distillers grains in pig feed. As significant users of energy and petroleum products, we pork producers are as interested as anyone in finding new, renewable sources of energy to reduce our imports of oil from unstable parts of the world. However, some thought needs to be given to the unintended consequences of the development of those alternatives. In our specific case, an analysis is called for of the impacts that the triple threat of ethanol support in the U.S. (consumption mandates, ethanol import tariffs, and price subsidies) has had on corn prices and in turn costs for livestock producers. We know that there are many world-wide demand and

supply factors that have influenced corn prices over the past five years – what we need is a recognition that ethanol has played a part in the contraction of the country’s livestock industry, that there are and will continue to be implications for meat consumers in the form of higher prices, and ultimately, we need an honest discussion about what our country’s strategy is for getting beyond corn-based ethanol.

Our Future

Pork production is a major source of job creation in this country. Iowa State University has estimated that a 100 million gallon ethanol plant in Iowa uses 37 million bushels of corn per year and directly employs 80 people. The same 37 million bushels of corn made into feed and fed to pigs in a farrow-to-finish operation directly employs 800 people! Add to that the hundreds of additional jobs created in the meat packing, processing, food wholesale and retail sectors, and exports, and one realizes the importance of livestock production in producing economic value and creating good jobs in this country.

At The Maschhoffs, we are planning for the sixth generation of family members to carry on the tradition of pork production in the Midwest to support (and grow) the thousands of jobs dependent on livestock and meat production in Illinois and beyond. We are concerned with the many regulations at all levels of government that continue to pose threats to our business. Those include business, income and estate taxes; environmental permitting; legal and regulatory intrusions into business contracting; food safety regulations; compliance with nine state sets of workers’ compensation laws; and in some locations, a failing transportation infrastructure. There are other issues as well that we have to deal with on a daily basis: access to affordable capital to finance our business; threats from anti-livestock and strident animal welfare groups; restrictions to free trade; the costs of energy and health care; not to mention the availability and cost of our main input, corn. I joke with my four children that in order to keep this business going, we are going to need them to study law, medicine, business and psychiatry! In spite of the numerous threats to our business, we remain optimistic because we are engaged in agriculture in a part of the country that is best suited to a combination of crops and livestock production. We benefit from a rare combination of soils and climate that are the envy of farmers around the world and that have given us a tremendous comparative advantage in animal agriculture.

We love what we do and we are proud to be involved, along with hundreds of Midwestern farm families, in the noble endeavor of feeding people throughout the United States and around the world.

We ask that the Congress and the Administration work to maintain a business climate and regulatory environment that allows us to focus on what we do best – producing pork.